

Role of FDI in India's Health Care Sector-SWOT Analysis

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Abstract: India is one of the most lucrative and fast growing service sector in India. Providing good and reasonable health care to India's billion plus population itself presents big opportunities and challenges for the medical community and its other service providers. MNC have consistently been focusing on Indian health care sector and trying to enter this segment through partnership and investments. Since January 2000, FDI is permitted upto 100 % under the automatic route in hospitals in India. FDI has potential to generate employment, raise productivity, improve competitiveness etc.

Keywords: FDI, Healthcare, Hospitals, Foreign Financing, India

Introduction:

Health care is one of the fastest growing service sector in India. As people are becoming more and more conscious about their health, hence the health care industry is growing at a fast speed. The health care industry in India is thriving with scopes and opportunities each and every day. Medical service providers have a great role to play in health care industry.

Healthcare sector has a great potential in the present globalized world. It is one of the world's largest industries with total revenues of approximately US\$ 2.8 Trillion.. Indian healthcare sector has estimated revenue of around \$ 30 billion constituting 5% of GDP and offering employment to around 4 million people (CII Report 2011). According to Investment Commission of India, the sector has witnessed a phenomenal expansion in the last few years growing at over 12% per annum. As per a recent CII-McKinsey report, the growth of healthcare sector can contribute to 6-7% of GDP

The growing importance of the healthcare sector and the significant development of international trade in healthcare services have attracted FDI in this sector in the recent years. In India, 100 per cent FDI is permitted in hospitals and all health-related services under the automatic route. The healthcare sector includes medical care providers, physicians,

specialist clinics, nursing homes, hospitals, medical diagnostic centers and pathology laboratories. In terms of revenue and employment, it is one of the India's largest service sector industries. The Indian healthcare sector has estimated revenue of around US\$ 30 billion constituting 5 per cent of GDP and offering employment to around 4 million people.

Hospitals account for the major share of total healthcare revenues in India. Of the total health care revenues, hospitals account for 71 per cent, pharmaceuticals for 13 per cent and medical equipment and supplies for 9 per cent. The Indian healthcare sector is expected to reach US\$ 280 billion by 2020 from the current US\$ 72 billion, expenditure is likely to expand at a CAGR of 12 per cent over 2012-152. According to Investment Commission of India, the sector has witnessed a phenomenal expansion in the last few years growing at over 12% per annum.

The hospitals that were confined to a specified area with limited infrastructure and services are now expanding mainly due to the foreign investment being received by the sector. This sector has received the maximum investment from private equity (PE) and venture capital (VC) players, attracting US\$ 817 million across 29 investments till August 2012 (Venture Intelligence). The hospital and diagnostic centers in India has attracted FDI worth US\$ 2.93 billion, while drugs & pharmaceuticals and medical & surgical appliances industry registered FDI worth US\$ 12.9 billion and US\$ 925.4 million, respectively during April 2000 to February 2015.

The healthcare sector in India includes: (i) medical care providers; (ii) Diagnostic Centre and Pathology Lab; (iii) Medical equipment manufacturers; (iv) research organizations and (v) Third party service providers

FDI in Health Care Sector :

Foreign investors play important role in the development of the medical sector. In recent years, there is growing interest among foreign players to

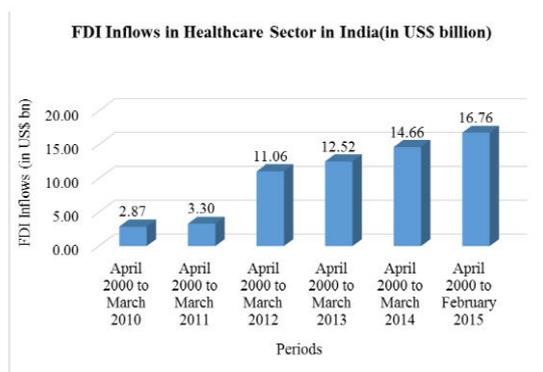
enter Indias health care sector through capital investments, technology tie –ups, and collaborative ventures across various segments including diagnostics, medical equipment, hospitals, education and training. Indias foreign investment policy is liberal for hospitals. Since January 2000, FDI is permitted up to 100% under the automatic route for the hospitals sector in India. Approval from the Foreign Investment Promotion Board (FIPB) is required only for foreign investors with prior technical collaboration, but allowed up to 100%. Further, India has received USD 1, 32,837 million as aggregate FDI from April, 2011 and specifically hospital and diagnostic centres have received FDI of USD 1030.05 million from April 2000 up to April 2011 constituting 0.78 % of the total FDI in to India

STATUS OF FDI IN HOSPITALS

The following table-1 shows the status of FDI in healthcare sector in India, more specifically in drugs & pharmaceuticals, hospitals & diagnostic centers

FDI Inflows in Healthcare Sector in India Periods	Total FDI Inflows in India(in US\$ billions)	FDI Inflows in Healthcare Sector in India (in US\$ billions)	% age in total FDI Inflows
April 2000 to March 2010	110.29	2.87	2.54
April 2000 to March 2011	129.72	3.3	2.54
April 2000 to March 2012	170.29	11.06	6.5
April 2000 to March 2013	192.28	12.52	6.48
April 2000 to March 2014	217.7	14.66	6.74
April 2000 to February 2015	246.39	16.76	6.81

Table-1 shows that India received US\$ 110.29 billion as total FDI inflows in which US\$ 2.87 billion FDI came in healthcare sector that constituted just 2.5 per cent of total FDI inflows in India during the period from April 2000 to March 2010 whereas India has received US\$ 246.39 billion as aggregate FDI inflows in which US\$ 16.76 billion came in healthcare sector that registered 6.8 per cent of total FDI inflows during April 2000 to February 2015. This is evident from the table-1 that the growth rate in total FDI inflows is 123.4 per cent from April 2000 to March 2010 and April 2000 to February 2015 while 484 per cent growth rate in healthcare sector during the same period.



SWOT

SWOT analysis means to analyze the strengths, weaknesses, opportunities and threats of FDI inflows in health care sector in India.

Strengths: India has a huge market with growing urban middle class population and growing private hospitals aiming to attract health tourism are the main strengths to attract FDI inflows in this sector.

Weaknesses: Low per capita expenditure, lack of infrastructure in healthcare and implementation of government policies, untapped rural markets, excessive dependency on imports, etc., are the main weaknesses to attract FDI in this sector. Academic know- how, research and development are also not developed.

Opportunities: India’s weaknesses in this sector can be opportunities for foreigner investors as overseas companies investing in India to set up research units and develop new products, may increase joint ventures and agreements to develop infrastructure, know- how, etc.

Threats: India’s regulatory policies may slow down the development of the market. Unorganized market for medical disposables, lack of regulations in medical disposables and surgical items leading to spurious products are the main threats in this sector.

Strengths <ul style="list-style-type: none"> • Potentially huge market with growing urban middle class population • Growing private hospital sector aiming to attract health tourists 	Weaknesses <ul style="list-style-type: none"> • Low per capita expenditure • Lack of implementation of government policies and infrastructure • Untapped rural markets • Excessive dependency on imports • Academic know-how not well developed • Support system from R & D not available
Opportunities <ul style="list-style-type: none"> ○ Overseas companies investing in India to set up research units and develop new products ○ Increasing joint ventures and agreements ○ Overseas aid assisted projects to improve healthcare infrastructure • Regulations to improve market for domestic manufacturers 	Threats <ul style="list-style-type: none"> • Regulation policies may slow down the development of the market • Unorganized market for medical disposables • Lack of regulations in Medical disposables and surgical items leading to spurious products

Table : SWOT Analysis of HEALTH CARE Industry

CONCLUSIONS

The healthcare sector is one of the biggest recipients of FDI inflows in India and it has significant growth potential and can contribute significantly to India's growth. This is possible by making adequate investments in the various components of healthcare sector. Therefore, in order to meet the needs of this sector and to reap the optimal benefits from this sector India needs to supplement domestic savings with foreign investment. There are several positive implications of FDI inflows in this sector. One of the major impacts foreign investment would have is the creation of necessary infrastructure. Investments are also needed beyond the metros to expand access to healthcare. In addition to helping increase physical capacity in this sector, such as increasing the number of hospital beds, diagnostic facilities, and increasing the supply of specialty and super-specialty centers. Foreign investment can also help in raising the standards and quality of healthcare, in upgrading technology and creating employment opportunities, with potential benefits to this sector and the economy at large. With the prospects for setting up hospitals in Special Economic Zones and large scale medicates, there are opportunities for foreign investors to finance in these projects. FDI in hospitals would benefit the Indian healthcare sector if the ultimate aim is to expand capacity, improve standard, and make this sector affordable and accessible to a wider segment of the society. The Government should have a concrete healthcare policy, promote healthcare tourism, and adopt a PPP model for growth of this sector.

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